

Condensed Consolidated Financial Statements of

WHITE OWL ENERGY SERVICES INC.

For the three months ended March 31, 2017 and 2016

(Unaudited)(Expressed in thousands of Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

As per the disclosure requirements of National Instrument 51-102, Part 4, subsection 4.3(3)(a), this note is to inform readers that White Owl Energy Services Inc. has elected not to review these financial statements and notes with its auditors.

The accompanying condensed consolidated financial statements of White Owl Energy Services Inc. as at and for the three months ended March 31, 2017 have been internally prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

WHITE OWL ENERGY SERVICES INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL
POSITION
(Unaudited)(Expressed in thousands of Canadian dollars)

	March 31, 2017	December 31, 2016
ASSETS		
CURRENT		
Cash	1,731	2,584
Trade and other receivables	1,912	2,374
Promissory notes (Note 9)	170	170
Deposits and prepaid expenses	599	183
	4,412	5,311
Property, plant and equipment	26,609	26,453
Goodwill	8,475	8,557
	39,496	40,321
LIABILITIES		
CURRENT		
Term loan (Note 3)	15,269	15,550
Current portion of long-term debt (Note 4)	30	30
Trade and other payables	1,101	1,232
	16,400	16,812
Long-term debt (Note 4)	179	189
Decommissioning liabilities	1,175	1,171
	17,754	18,172
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	30,477	30,377
Warrants (Note 5)	53	53
Contributed surplus	947	860
Accumulated other comprehensive income	3,647	3,841
Deficit	(13,382)	(12,982)
	21,742	22,149
	39,496	40,321
Going concern considerations (Note 2)		
Subsequent event (Note 11)		

The accompanying notes are an integral part of the condensed consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
LOSS

(Unaudited)(Expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2017	2016
REVENUE		
Oilfield waste disposal services	2,434	2,293
	2,434	2,293
EXPENSES		
Operating costs	1,689	1,334
General and administrative	463	357
Depreciation and amortization	349	344
Finance costs (income) (Note 6)	250	492
Foreign exchange losses (gains)	(4)	31
Share-based payments	87	78
Gain on debt extension (Note 4)	-	(269)
Loss on disposal of assets	-	44
	2,834	2,411
NET LOSS	(400)	(118)
OTHER COMPREHENSIVE INCOME (LOSS)		
Exchange difference on translating foreign operations	(341)	(2,039)
Change in fair value of net investment hedges (Note 7)	147	1,014
	(194)	(1,025)
NET COMPREHENSIVE LOSS	(594)	(1,143)

The accompanying notes are an integral part of the condensed consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)(Expressed in thousands of Canadian dollars)

	Share Capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Balance at December 31, 2015	20,649	-	650	4,249	(12,922)	12,626
Net loss	-	-	-	-	(118)	(118)
Other comprehensive loss	-	-	-	(1,025)	-	(1,025)
Share-based payments	-	-	78	-	-	78
Settlement of share repurchase obligations (Note 6)	5,511	-	-	-	-	5,511
Balance at March 31, 2016	26,160	-	728	3,224	(13,040)	17,072
Balance at December 31, 2016	30,377	53	860	3,841	(12,982)	22,149
Net loss	-	-	-	-	(400)	(400)
Other comprehensive loss	-	-	-	(194)	-	(194)
Share-based payments	-	-	87	-	-	87
Common shares issued (Note 5)	100	-	-	-	-	100
Balance at March 31, 2017	30,477	53	947	3,647	(13,382)	21,742

The accompanying notes are an integral part of the condensed consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)(Expressed in thousands of Canadian dollars)

	Three months ended	
	March 31,	
	2017	2016
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss	(400)	(118)
Adjustments for non-cash items:		
Depreciation and amortization	349	344
Accretion (Note 6)	8	92
Unrealized foreign exchange losses (gains)	(4)	30
Share-based payments	87	78
Gain on debt extension (Note 4)	-	(269)
Loss on disposal of assets	-	44
Change in non-cash working capital (Note 10)	54	524
	94	725
INVESTING		
Property, plant and equipment expenditures	(742)	(1,374)
Change in non-cash working capital (Note 10)	(159)	248
	(901)	(1,126)
FINANCING		
Proceeds from issuance of shares, net of costs (Note 5)	100	-
Debt repayments (Note 3 & 4)	(136)	(120)
Repayment of promissory notes payable	(5)	-
Change in non-cash working capital (Note 10)	6	-
	(35)	(120)
Foreign exchange loss on cash held in foreign currency	(11)	(160)
NET DECREASE IN CASH	(853)	(681)
CASH, BEGINNING OF PERIOD	2,584	3,059
CASH, END OF PERIOD	1,731	2,378

The accompanying notes are an integral part of the consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2017 and 2016

(Unaudited)(All figures expressed in Canadian dollars unless otherwise noted)

1. CORPORATE INFORMATION

White Owl Energy Services Inc. (“White Owl”) was incorporated under the Business Corporations Act of the province of Alberta on September 26, 2013 (together with its subsidiaries, the “Company”). White Owl Energy Services, Inc. (“White Owl (US)”) was incorporated under the laws of the state of North Dakota on September 24, 2013. On November 1, 2013, White Owl acquired all the issued and outstanding shares of White Owl (US) by a share purchase agreement.

The Company is based in Calgary, Alberta and is actively involved in the collection, processing, and disposal of oilfield waste. The Company’s registered office is 1150, 1122 – 4th Street SW, Calgary, AB T2R 1M1.

The condensed consolidated financial statements (“consolidated financial statements”) were authorized for issuance by the Board of Directors on June 12, 2017.

2. BASIS OF PRESENTATION AND GOING CONCERN CONSIDERATIONS

These consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information or footnote disclosure normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been condensed or omitted.

The consolidated financial statements include the financial statements of the Company, its subsidiaries and the Company’s proportionate share of the accounts of its joint operation.

These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2016.

The consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2016. The consolidated financial statements have been presented in Canadian dollars, which is also the Company’s functional currency, unless otherwise indicated.

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue operation in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

At March 31, 2017, the Company had negative working capital of \$11,988,000 an accumulated deficit of \$13,382,000 and a net loss for the three months ended March 31, 2017 of \$400,000. These factors indicate the existence of material uncertainties which may cast significant doubt about the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due is dependent on achieving future profitable operations. There is no certainty that the Company will achieve profitable operations in the future due to factors such as commodity prices, industry activity levels in the regions in which the Company operates, competition, successfully raising capital for acquisition and development opportunities and successful implementation of management’s plans.

The consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities, and reported revenues and expenses, that might be necessary should the Company be unable to continue as a going concern, and therefore, be required to realize its assets and discharge its liabilities other than in the normal course of business and at carrying amounts different from those reflected in the accompanying consolidated financial statements. Any such adjustments could be material.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2017 and 2016

(Unaudited)(All figures expressed in Canadian dollars unless otherwise noted)

3. TERM LOAN AND OPERATING LOAN

Term Loan

The term loan is a non-revolving, reducing demand facility at an annual interest rate of US prime plus 1.75%. Principal payments of \$133,880 (US\$100,000) were made during the three months ended March 31, 2017 (2016 - \$117,444 (US\$82,573)). The Company is required to make monthly interest payments as well as total principal payments of US\$100,000 each quarter until June 30, 2017. The Company is required to make two additional payments of principal and interest if the debt service coverage ratio is greater than 1.5 to 1 as calculated on March 31, 2017 and June 30, 2017. These additional payments would be equal to the Company's excess earnings before interest, depreciation, taxes and amortization for the three months ended March 31, 2017 and June 30, 2017, respectively. At March 31, 2017, the Company's debt service ratio is less than 1.5 to 1 and no additional payment will be required. The remaining balance at June 30, 2017 will be repaid over a seven-and-a-half-year amortization period. Blended monthly principal and interest payments of approximately US\$156,575 will start on July 31, 2017 if the US prime rate remains unchanged from current rates. The loan is subject to annual review with the next review scheduled for June 2017.

(\$000's)

Balance at December 31, 2015	16,558
Principal payments	(510)
Foreign exchange effect	(498)
Balance at December 31, 2016	15,550
Principal payments	(134)
Foreign exchange effect	(147)
Balance at March 31, 2017	15,269

Operating Loan

The operating loan is a US\$1,000,000 facility and is reduced by outstanding letters of credit of \$53,862 and credit card balances of \$18,340. There are no amounts drawn on the operating line at March 31, 2017 (December 31, 2016 – nil).

Covenants

Under the loan agreement for the term and operating loans, the Company is required to maintain a minimum Debt Service Coverage Ratio of 1.25 to 1. The Debt Service Coverage Ratio is calculated as follows:

$$\text{Debt Service Coverage Ratio} = \frac{\text{Earnings before interest, depreciation, taxes and amortization}}{\text{Debt service obligations}}$$

The Debt Service Coverage Ratio at March 31, 2017 was 1.35 (December 31, 2016 – 1.55). The ratio is calculated based on the trailing four quarters at March 31, 2017.

Security

The Term Loan and Operating Loan are secured by all of the Company's present and future acquired property.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2017 and 2016

(Unaudited)(All figures expressed in Canadian dollars unless otherwise noted)

4. LONG-TERM DEBT

(\$000's)	March 31, 2017	December 31, 2016
Promissory notes	57	62
Mortgage	152	157
Total long-term debt	209	219
Less current portion	(30)	(30)
Total non-current portion	179	189

In February 2016, the Company reached an agreement to extend the repayment terms of the US\$2,000,000 promissory note. The fair value of the promissory note at the date of the amendment was determined using an effective interest rate of 9.75% and, as a result, the carrying value of the promissory note was reduced by \$269,000 with a corresponding gain recorded in the consolidated statement of comprehensive loss. In December 2016, the Company entered into the debt settlement agreement with the holders of the promissory note. The Company recorded a loss on the debt settlement of \$364,310 which reflects the difference between the carrying amount of the promissory note and fair value for the common shares issued.

In September 2016, the Company entered into a promissory note agreement with a principal amount of US\$24,650 bearing interest at 5.75%. The Company will make monthly payments of US\$748 until September 5, 2019.

In October 2016, the Company entered into a promissory note agreement with a principal amount of US\$25,650 bearing interest at 5.75%. The Company will make monthly payments of US\$780 until November 5, 2019.

The Company has a mortgage agreement that bears interest at 4.95% and requires annual payments of US\$12,091 until January 1, 2020, at which time the annual payment will be adjusted based on changes in interest rates for two subsequent five year terms.

(\$000's)	Three months ended March 31, 2017	Twelve months ended December 31, 2016
Balance, beginning of period	219	2,699
Issuance of promissory notes	-	67
Principal payments – promissory notes	(5)	(5)
Principal payments – mortgage	(2)	(7)
Change in fair value of promissory note	-	(269)
Promissory note repayment	-	(2,265)
Accretion	-	124
Foreign exchange effect	(3)	(125)
Balance, end of period	209	219

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2017 and 2016

(Unaudited)(All figures expressed in Canadian dollars unless otherwise noted)

5. SHARE CAPITAL

Authorized

An unlimited number of common and preferred shares without nominal or par value.

Issued

(\$000's)	March 31, 2017	December 31, 2016
Common shares	18,124	18,024
Preferred shares	12,353	12,353
	30,477	30,377

COMMON SHARES

	Number (000's)	Amount (\$000's)
Balance, December 31, 2015	26,759	8,296
Settlement of share repurchase obligations (Note 6)	-	5,511
Shares issued upon exercise of stock options	1	2
Settlement of long-term debt	8,000	2,666
Shares issued	5,873	1,768
Share issue costs	-	(166)
Share issue costs – broker warrants	-	(53)
Balance, December 31, 2016	40,633	18,024
Shares issued	286	100
Balance, March 31, 2017	40,919	18,124

WARRANTS

	Number (000's)	Amount (\$000's)
Balance, December 31, 2015	-	-
Unitholder warrants issued	2,836	-
Broker warrants issued	350	53
Balance, December 31, 2016 and March 31, 2017	3,186	53

At March 31, 2017, there were 4,000,000 (December 31, 2016 – 4,000,000) common shares held in escrow.

In January 2017, the Company issued 285,714 common shares at \$0.35 per common share for total proceeds of \$100,000.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2017 and 2016

(Unaudited)(All figures expressed in Canadian dollars unless otherwise noted)

PREFERRED SHARES

	Number (000's)	Amount (\$000's)
Balance, December 31, 2016 and March 31, 2017	26,469	12,353

The Senior Preferred Class A Voting Shares are convertible into common shares of the Company, at the option of the holder, on a one to one basis, and rank ahead of common shares on liquidation, dissolution or winding up of the Company.

6. FINANCE COSTS

	Three months ended March 31,	
(\$000's)	2017	2016
Interest on term loan	228	235
Interest on long-term debt	3	26
Cost of share repurchase obligation settlement	-	139
Accretion of long-term debt (Note 4)	-	31
Accretion of share repurchase obligations	-	55
Accretion of asset retirement obligations	8	6
Interest, bank charges and other	11	-
	250	492

As part of certain business combinations completed in 2014, the vendors of the Watford, New Town and Roy facilities received shares as well as the right to have the Company repurchase these shares three years after the acquisition dates. The share repurchase rights were recorded at the cash required to settle the rights discounted at 9%. In February 2016, the Company terminated the share repurchase obligations that required the Company to repurchase 2,000,000 shares of the Company at US\$0.50 and 4,000,000 shares at US\$0.88 in exchange for a payment of \$139,000, release of US\$500,000 held in escrow and the termination of the Company's rights to repurchase these shares. The Company recorded an increase in share capital of \$5,511,000 and a settlement expense of \$139,000.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Net investment in foreign operations

The Company hedges its net investment in foreign operations with US dollar denominated debt that has a carrying value of \$15,269,117 (US\$11,481,402) at March 31, 2017 (December 31, 2016 - \$15,550,349 (US\$11,581,402)). No hedge ineffectiveness was recognized during the three months ended March 31, 2017 and year ended December 31, 2016.

Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, foreign currency risk, interest rate risk and commodity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2017 and 2016

(Unaudited)(All figures expressed in Canadian dollars unless otherwise noted)

Fair values

The Company's financial instruments recognized on the consolidated statement of financial position consist of cash, trade and other receivables, promissory notes, term loan, trade and other payables and long-term debt. The fair values of the cash, trade and other receivables, promissory notes, term loan and trade and other payables approximates their carrying value due to the short term or demand nature of these instruments. Long-term debt is carried at amortized cost which approximates fair value as interest rates at March 31, 2017 and December 31, 2016 were consistent with interest rates in these instruments.

The Company has classified its financial instrument fair values based on the required three level hierarchies:

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities;
- Level 2: Valuations based on observable inputs other than quoted active market prices; and,
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flows methods.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The Company records cash at fair value using level 1 inputs and share repurchase obligations at fair value using level 3 inputs. There were no transfers from levels 1, 2 and 3 during the three months ended March 31, 2017 and year ended December 31, 2016.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets at the reporting date. A substantial portion of the Company's trade and other receivables balance is with customers in the petroleum industry and is subject to normal industry credit risks.

The Company manages its exposure to credit risk through standard credit granting procedures and short payment terms. The Company attempts to monitor financial conditions of its customers and the industries in which they operate. The Company's maximum exposure to credit risk at March 31, 2017 was the total of cash, trade and other receivables and promissory notes of \$3,812,978 (December 31, 2016 - \$5,128,335). The Company believes that there is no unusual exposure associated with the collection of these trade and other receivables and no allowance for doubtful accounts is required.

The aging of trade and other receivables is as follows:

(\$000's)	Current	30-60 days	60-90 days	90+days	Total
	880	794	201	37	1,912

8. CAPITAL MANAGEMENT

The Company's objective is to ensure adequate sources of capital are available to carry out its planned capital program, to achieve operational growth and increased cash flow so as to sustain future development of the business and to maintain shareholder confidence. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its assets. Management considers capital to be the Company's total debt facilities and equity as the components of capital to be managed. In order to maintain or adjust the capital structure, the Company may issue shares, raise debt and/or adjust its capital spending to manage its projected debt levels.

The Company will manage its debt to maintain compliance with the financial covenant contained within its debt facilities (Note 4).

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2017 and 2016

(Unaudited)(All figures expressed in Canadian dollars unless otherwise noted)

The capital for operations to date has been mostly from proceeds from the issuance of common and preferred shares, a non-revolving term loan and long-term debt. The Company's capital structure is as follows:

(\$000's)	March 31, 2017	December 31, 2016
Term loan	15,269	15,550
Long-term debt	209	219
Total equity	21,742	22,149
	37,220	37,918

9. RELATED PARTY TRANSACTIONS

The Company has promissory notes receivable from officers of the Company of \$170,000 at March 31, 2017 (December 31, 2016 - \$170,000). These unsecured promissory notes are due on demand and bear interest at 3% per annum. These transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are initially measured at fair value.

At March 31, 2017, the Company has recorded \$17,853 (December 31, 2016 - \$179,693 owing from) in amounts owing to the Tioga Joint Venture. These amounts have been recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and is equal to fair value.

10. CHANGES IN NON-CASH WORKING CAPITAL

(\$000's)	Three months ended March 31, 2017	2016
Trade and other receivables	439	470
Deposits and prepaid expenses	(416)	208
Trade and other payables	(122)	94
	(99)	772
Allocated to:		
Operating	54	524
Investing	(159)	248
Financing	6	-
	(99)	772

11. SUBSEQUENT EVENT

White Owl Energy is proposing to acquire its first clean oil terminal and treating, blending and water disposal midstream facility and associated production with a proposed closing date in June. The facility is connected to the Pembina pipeline and a crude oil marketing and blending agreement is being negotiated with one of the largest global marketers. The facility will eventually be permitted for oilfield waste disposal in addition to production water and flow back disposal and processing. A deposit of \$500,000 towards the purchase price was paid in March 2017.